

B&C Medical College Teaching Hospital & Research Center Private Limited

Ratings

Facilities	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	2,601.26	CARE-NP BB- [Double B Minus]	Assigned
Short Term Bank Facilities	100.00	CARE-NP A4 [A Four]	Assigned
Total Facilities	2,701.26 (Two Thousand Seven Hundred One Million and Two Hundred Sixty Thousand Only)		

Details of instruments/facilities in Annexure-1

CARE Ratings Nepal Limited (CRNL) has assigned rating of 'CARE-NP BB-' to the long term bank facilities and 'CARE-NP A4' to the short term bank facilities of B&C Medical College Teaching Hospital & Research Center Private Limited (BNC).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of BNC are constrained by the company's leveraged capital structure with weak debt service coverage indicators. The ratings also factor in the regulatory & reputational risk, highly competitive nature of the industry coupled with challenges of attracting and retaining quality doctors and medical professionals, and exposure to volatile interest rates.

The ratings, however, derive strengths from established track record and experienced promoters in the related field, growing scale of operations albeit moderate profitability and gross cash accruals. The ratings also take cognizance of the positive industry outlook of health care sector.

Going forward, the ability of the company to sustain growth in its operations while maintaining profitability margins resulting in improved coverage indicators and timely realization of debtors leading to rationalization of operating cycle will be the key rating sensitivities. Furthermore, approval of proposed Medical College will be a key monitorable aspect.

Detailed description of the key rating drivers

Key Rating Weaknesses

Leveraged capital structure with weak debt service coverage indicators

BNC's capital structure stood leveraged, marked by an overall gearing ratio of 2.38x at the end of FY22 (Unaudited, FY refers to the twelve-month period ending mid-July) which slightly deteriorated from 2.19x at the end of FY21 (Audited) on account of higher debt levels which was partially offset by accretion of profits to reserves. The high debt level of the company is also due to infrastructural development for the operation of medical college, which has been on hold due to delay in approval from the government. Debt-Equity ratio stood high at 2.36x at the end of FY22 (FY21: 2.19x). Similarly, debt coverage indicators of the company stood weak with interest coverage ratio of 1.63x in FY22. Additionally, the company's total Debt/Gross Cash Accruals also stood high at 15.95x in FY22 compared to 13.04x in FY21.

Regulatory framework for healthcare sector in Nepal

Despite the increasing trend of privatization of healthcare sector in Nepal, the healthcare sector continues to operate under stringent regulatory control. Accordingly, the healthcare service providers, at times, find it difficult to realize their plans or cope with the regulatory framework. Hence, regulatory challenges continue to pose a significant risk to private healthcare & educational institutions as they are highly susceptible to changes in regulatory framework.

¹Complete definition of the ratings assigned are available at www.careratingsnepal.com and other CARE publications

Reputation risk and stabilization risk regarding expansion operations

Healthcare is a highly sensitive sector where any mishandling of a case or negligence on the part of any doctor and/or staff can lead to distrust among the masses. Thus, all the healthcare providers need to monitor each case diligently and maintain high operating standard to avoid the occurrence of any unforeseen incident which can damage the reputation of the hospital to a large extent.

The Company incurs regular capex for increasing its existing facility. Going forward, the ability of the company to generate sufficient cash flows after the series of capital expenditures by ramping up the operations and achieving the higher occupancy levels and enrolment ratio would bear significant impact on the credit risk profile of the company.

Highly competitive nature of the industry coupled with challenges of attracting and retaining quality doctors and medical professionals

The company operates in a highly competitive industry with various organized and unorganized players in the market. BNC faces stiff competition from other hospitals and private clinics in the area. Thus, differentiating factors like range of services offered, quality of service, pedigree of doctors, success rate in the treatment of complex cases, word of mouth etc. are crucial in order to attract patients and increase occupancy levels. Moreover, the hospital needs to be cautious with its operations and has to follow various regulations imposed by the government. Furthermore, with the increasing competition due to mushrooming of private clinics/ small hospitals in the region, retention of the trained medical staff seems to be an area of concern for the company. Going forward, retention of trained medical staff would be critical for the company to profitably scale up its operations.

Exposure to volatile interest rate

Nepalese banking sector has a floating interest rate regime, where a certain premium is added to the quarterly base rate and interest rate is changed accordingly on quarterly basis. The base rates of the banks and financial institutions (BFIs) in Nepal remain quite volatile as they are impacted by available liquidity in the system which leads to change in interest rates. The volatility in interest rate is more evident currently on account of the ongoing liquidity stress in the economy, with substantial upward pressure on interest rates in the last few quarters. A contractionary monetary policy for FY23 coupled with increasing inflation has only added to the upward pressure on interest rates, resulting in increased base rates of BFIs in the first half of FY23. Any further significant rate hikes could put increased interest burden on the company, squeezing its profitability and impacting its liquidity position. Therefore, funding taken by the company from BFIs is subject to volatile interest rate.

Key Rating Strengths**Established track record and experienced promoters in the related field**

BNC is providing health related services for more than a decade. The company is managed under the overall guidance of its four members in Board of Directors (BoD) who possess wide experience in the related field. Ms. Indira Giri is the chairman of BNC since the time of inception of the hospital and has about two decades of experience. Mr. Durga Prasai, Executive Director, has around two decades of experience in the field of construction, project management, and trading and hospitality industries. He is also the promoter of Purbanchal Cancer Hospital Private Limited. Similarly, Dr. Ram Babu Giri, Managing Director has a wide range of experience in the field of Medical Science and Management. He is also the founder and Director of the B&C Teaching Hospital and is also engaged in construction of a super specialty hospital in the district headquarter of Sunsari, Inaruwa. Furthermore, the BOD is aptly supported by an experienced management team of 615 staff including 466 medical staff as on December 01, 2022.

Growing scale of operations albeit moderate profitability and gross cash accruals

BNC reported consistent improvement in total revenue at a CAGR of 35.94% over FY19-FY22 majorly due to the increased flow of both inpatient and outpatients' admission. During FY22, the company reported increase in total revenue by 46.96% to Rs.

1,196 Mn (FY21: Rs. 814 Mn) amid improvement in occupancy ratio after pandemic which increased to 70% as compared to 55% in FY21. However, during 5MFY23, the total operational income of the company remains slightly sluggish at around Rs. 395 Mn on account of decrease in the outpatient admission after discontinuation of the Swastha Beema Program. Furthermore, during FY22, the PBILD margin of the company decreased to 35.11% compared to 43.66% in FY21 despite the increase in PBILD, owing to significant increase in administration cost. Consequently, PAT margin of the company decreased to 8.07% during FY22 compared to 11.40% in FY21, however remains at moderate levels. Gross Cash Accruals of the company grew to Rs. 203 Mn in FY22 from Rs. 171 Mn in FY21 which was mainly supported by increase in revenue.

Growing demand of healthcare services in Nepal

Healthcare has become one of Nepal's largest sectors both in terms of revenue and employment. Healthcare comprises hospitals, medical devices, clinical trials, outsourcing, telemedicine, medical tourism, health insurance and medical equipment. The Nepalese healthcare sector is growing at a good pace due to its strengthening coverage, services and increasing expenditure by public as well private players. Rising income level, greater health awareness, increased prevalence of lifestyle diseases and improved access to insurance would be the key contributors to growth.

About the Company

B&C Medical College Teaching Hospital & Research Center Private Limited (BNC) is a private company established in Jhapa District of Province 1 in 2011. The hospital offers wide range of services with advanced diagnostic facilities in various specialty segments. Brief financial performance of BNC during last three years is given below:

(Rs. in Million)

Particulars	FY20 (A)	FY21 (A)	FY22 (UA)
Income from operations	539	814	1,196
PBILD margin (%)	33.31	43.66	35.11
Overall gearing (times)	2.39	2.19	2.38
Interest Coverage ratio (times)	0.69	1.72	1.63
Current Ratio	3.11	2.71	2.11
Total Debt/ Gross Cash Accruals (times)	Negative	13.04	15.95

A: Audited; UA: Unaudited

Annexure-1: Details of Facilities Rated

Name of the Instrument	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	2,601.26	CARE-NP BB- [Double B Minus]
Short Term Bank Facilities	Fund Based Limit	100.00	CARE-NP A4 [A Four]
Total Facilities		2,701.26	

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About CARE Ratings Nepal Limited:

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